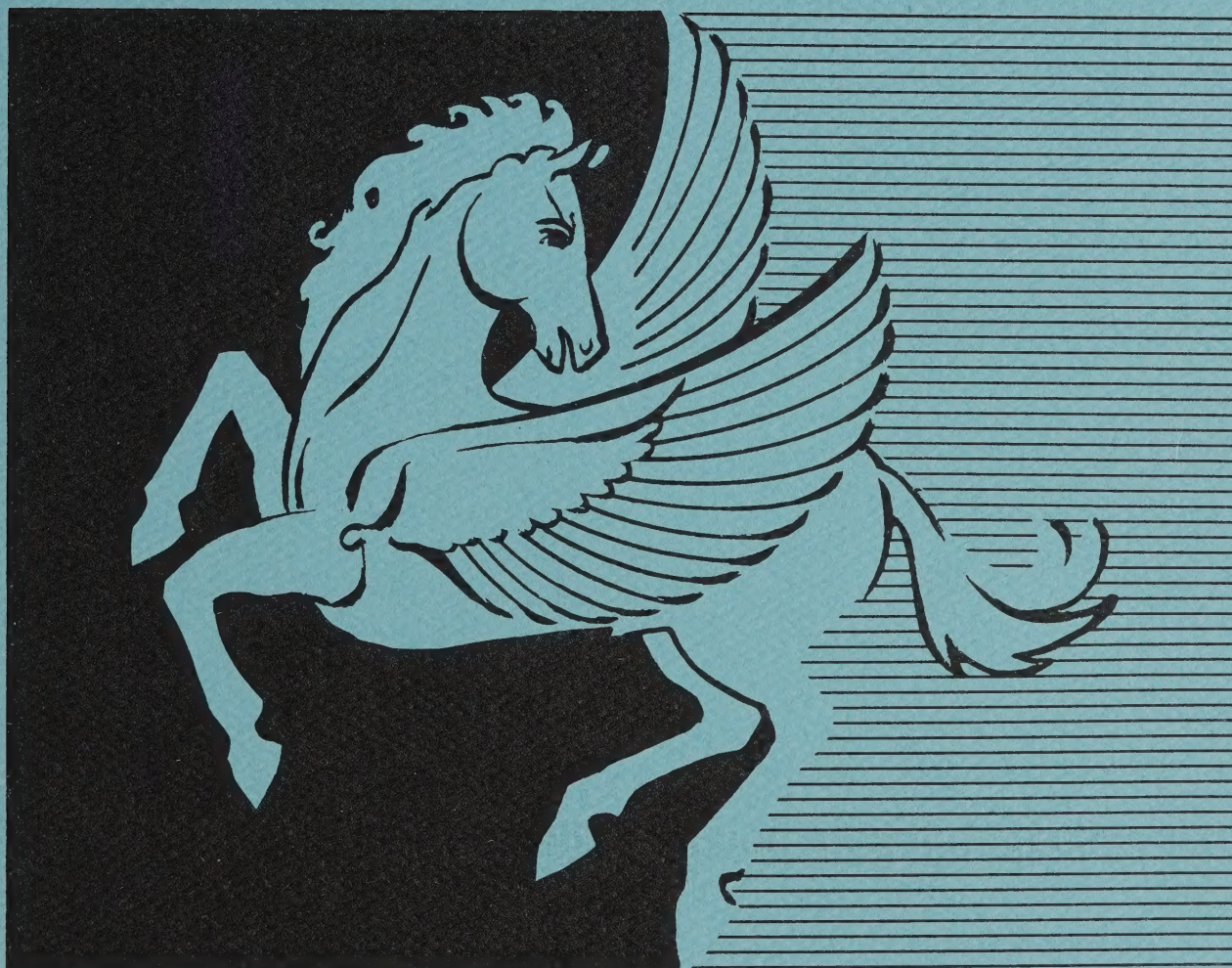
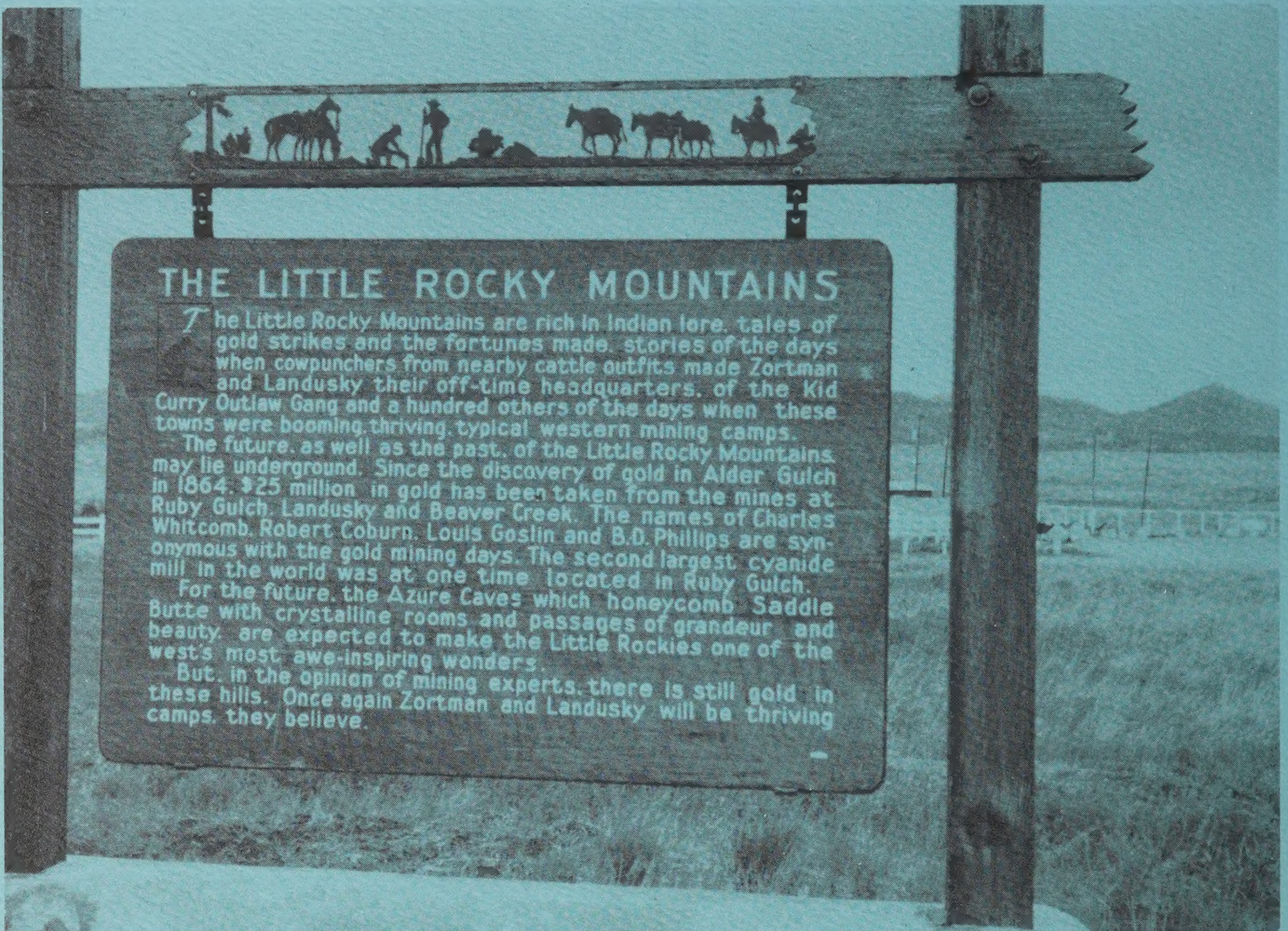


ANNUAL REPORT 1979



**pegasus explorations
limited**



Sign on Highway 191 immediately south of the Little Rockies, erected circa 1950.

Pegasus:

The winged eternal horse, born of Poseidon and Medusa, the Gorgon.



Directors

Hobart Teneff
President
Spokane, Washington

Edgar A. Scholz
Project Manager
Vancouver

Janice Duval
Mica, Washington

Dalton S. McCarthy
Vancouver, B.C.

Milton H. Zink
Secretary
Vancouver, B.C.

Officers

Hobart Teneff
President

Reg M.M. Rowe
Treasurer

Milton H. Zink
Secretary

REGISTERED OFFICE

1710 - 1177 West Hastings St.
Vancouver, B.C. V6E 2L3

EXECUTIVE HEAD OFFICE

1015 - 837 West Hastings St.
Vancouver, B.C. V6C 1C4

TRANSFER AGENT & REGISTRAR

The Canada Trust Company
901 West Pender Street
Vancouver, B.C. V6C 1L7

SHARES LISTED

Vancouver Stock Exchange

BANKERS

Canadian Imperial Bank of Commerce
1066 West Hastings Street
Vancouver, B.C. V6E 3X1

Bank of Montreal
First Bank Tower
595 Burrard Street
Vancouver, B.C. V7X 1L7

AUDITORS

Abbott Harrison & Co.
Chartered Accountants
630 - 470 Granville Street
Vancouver, B.C. V6C 1V5

SOLICITORS

Tupper & Company
Barristers & Solicitors
1710 - 1177 W. Hastings Street
Vancouver, B.C. V6E 2L3

Copies of the Company's 1979 Annual Report may be obtained from the Executive Head Office of the Company at 1015 - 837 W. Hastings Street, Vancouver, B.C. V6C 1C4.

Report to the Shareholders



During 1979 your Company has made very significant progress in bringing its Landusky, Montana gold-silver property into full production. By the end of the 1979 field operating season, the Company achieved full-scale production. The most important accomplishments were as follows:

- The State of Montana granted the full-scale operating permit for the Landusky property on June 5th, 1979. This permit allowed the company to move forward toward full-scale production, and on June 29th an agreement was reached with a mining contractor to mine ore and waste and deliver ore on to leach pads at a per ton rate with an escalation clause relating to increased gold prices. The contractor also undertook to perform pad construction, road construction, and miscellaneous similar work on an hourly equipment-rental rate.
- Equipment began to arrive on the jobsite on July 5th, after which date the project began to move forward very rapidly. The main haulage road between the mine and the leaching pad sites was completed, the pilot leach pad was expanded and 31,000 tons of additional ore placed thereon. A major new leach pad was sited immediately south and west of the pilot plant installation, and 458,000 tons of ore were placed on the new pad. The ore placed on the new pad graded 0.037 Oz. gold and 0.12 Oz. silver/ton. Late in the season, 38% of this new heap was brought under initial leach, and 1,014 ounces of gold and 670 ounces of silver recovered before freezeup.
- Significant additional gold and silver recoveries are expected from the original pilot leach pad ore, and most of the gold and silver recovery remains to be made from the 458,000 tons of ore on the new leach pad, bringing the total ore available for leaching at startup of the 1980 leaching season, to approximately 550,000 tons. It is estimated that with gold in the \$550 per ounce range, and silver in the \$25 per ounce range, the ultimate additional recoveries from leaching this ore will range between seven million and eight million dollars Canadian.
- During the 1979 field season, a 3-phase power line was completed to the operating area, and the leaching plant and other operating facilities placed on high-line power with the diesel electric plant relegated to standby emergency service. Two permanent six million gallon main operating ponds were completed and a one million gallon emergency pond was installed. With minor modifications, the overall leaching plant installation is expected to handle all of the solution volumes required to process more than one million tons of ore per year.
- It is interesting to note that, despite the intermittent operation of the pilot plant from its startup until the end of 1979, gold and silver sales were approximately \$1,525,000 U.S. at sales prices for gold ranging from \$235 U.S. to \$480 U.S. per ounce, and silver prices ranging from \$6.68 U.S. to \$23.20 U.S. per ounce.
- At present prices for gold and silver, the sales value of the production would have been approximately twice the amount quoted.
- The 1980 field program is underway. Work to date has included stripping of overburden from the open pit area, some haulage road revision, and construction work on a new pad. The new pad area will simply be an extension of the main new pad completed and loaded with ore in 1979.
- General engineering and management control of the operation has been significantly strengthened by the addition of new staff members. A computer pit optimization program is nearing completion. Once this planning program has been completed in final form, ore grades and waste tonnages will be available in reasonably accurate form. A forecast of the Company's expected economic performance for the year will then be made.

In conclusion, the Directors of the Company wish to express their sincere appreciation for the loyalty and diligent support of our field programs by all of our staff and hourly-rated employees.

Respectfully submitted,

E.A. Scholz,
Director and Project Manager.

PRECIOUS METAL PRICES

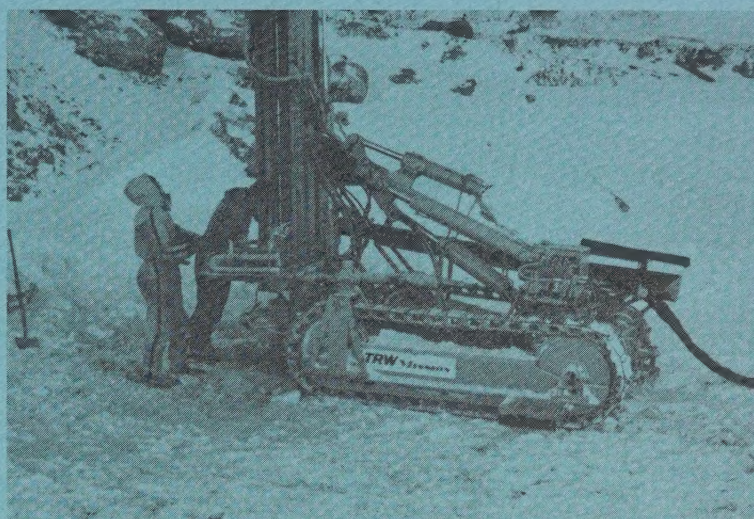
(Average price — in U.S. dollars per troy ounce)

December	Gold		Silver	
	U.S. \$		U.S. \$	
1979		\$526		\$34.52
1978		208		5.93
1977		161		4.71
1976		134		4.35
1975		140		4.09

Source: Vancouver Public Library



A compressor left behind from earlier mining days at Landusky.



Drilling through the winter snows at around the 5000 foot level.



Hauling ore from the North East August zone in 1979.



Dumping ore onto the leach pad to a depth of about 40 feet.



Building a 6,000,000 gallon pond, with 450,000 tons of ore on the pad behind.



Leaching the ore.



Consolidated Balance Sheet

December 31, 1979

	1979	1978
ASSETS		
CURRENT ASSETS		
Cash	\$ 83,942	\$ 7,455
Accounts receivable	6,954	161
Term deposits	—	300,058
Accrued interest	82,129	6,694
Refundable deposit	5,850	5,950
Advances to Landusky Partners	—	9,892
Advances to Zortman Partners	52,537	5,835
	<u>231,412</u>	<u>336,045</u>
INVESTMENT IN LANDUSKY PARTNERS		
Partnership contribution (Note 2)	1,083,563	680,640
Advances (Note 3)	1,367,937	220,462
	<u>2,451,500</u>	<u>901,102</u>
PROPERTY, PLANT AND EQUIPMENT (Note 4)	<u>151,874</u>	<u>270,576</u>
INCORPORATION COSTS	<u>202</u>	<u>202</u>
	<u>2,834,988</u>	<u>1,507,925</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness, current account	\$ —	\$ 132,161
Accounts payable and accrued liabilities	14,184	5,933
Contract payable, secured	3,141	5,281
	<u>17,325</u>	<u>143,375</u>
DEFERRED INCOME TAXES PAYABLE (Note 5)	<u>69,848</u>	<u>—</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	2,859,397	1,738,397
DEFICIT	(111,582)	(373,847)
	<u>2,747,815</u>	<u>1,364,550</u>
	<u>\$2,834,988</u>	<u>\$1,507,925</u>

Approved by the Directors:

E. A. Scholz, Director

William H. Zortman, Director



Consolidated Statement of Deficit

Year Ended December 31, 1979

	1979	1978
Deficit, beginning of year	\$ 373,847	\$ 297,775
Income (Loss) for year	262,265	(76,072)
DEFICIT, END OF YEAR	<u>\$ 111,582</u>	<u>\$ 373,847</u>

Consolidated Statement of Income

Year Ended December 31, 1979

	1979	1978
Revenue		
Share of Landusky Partners' income (loss)	\$ 402,923	\$ (531)
Interest income	90,053	9,048
Rental income	8,720	8,325
	<u>501,696</u>	<u>16,842</u>
Expenses		
Accounting and legal	35,177	38,550
Depreciation	123,258	35,239
Directors' fees	—	1,100
Interest and exchange	(5,386)	(29,729)
Legal	—	12,895
Other professional fees	6,000	10,571
Office and miscellaneous	2,537	6,978
Printing	3,226	1,440
Salaries	—	8,423
Stock exchange fees	637	200
Taxes	—	238
Telephone	104	—
Transfer agency fees	4,030	480
Travel and subsistence	—	6,200
Loss on disposal of asset	—	329
	<u>169,583</u>	<u>92,914</u>
Net Income (Loss) before income taxes	332,113	(76,072)
Deferred income taxes (Note 5)	69,848	—
NET INCOME (LOSS) FOR YEAR	<u>\$ 262,265</u>	<u>\$ (76,072)</u>



Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1979

	1979	1978
SOURCE OF WORKING CAPITAL		
From operations		
Income for year	\$ 262,265	\$ —
Add (deduct) items not involving current funds		
Depreciation	123,258	—
Deferred income taxes	69,848	—
Share of income of Landusky Partners	(402,923)	—
	52,448	—
Amount deemed paid up on shares issued for property and services	—	228,500
Shares issued for cash	1,121,000	442,697
Proceeds from sale of equipment	—	4,437
	1,173,448	675,634
APPLICATION OF WORKING CAPITAL		
To operations		
Loss for period	—	76,072
Deduct items not involving current funds		
Depreciation	—	(35,239)
Share of loss of Landusky Partners	—	(531)
Loss on disposal of assets	—	(329)
	—	39,973
Investment in Landusky Partners, net of lease and deferred development costs previously capitalized	—	362,173
Advances to Landusky Partners	1,147,475	220,462
Additions to property, plant and equipment	4,556	30,022
	1,152,031	652,630
INCREASE IN WORKING CAPITAL	21,417	23,004
WORKING CAPITAL AT BEGINNING OF YEAR	192,670	169,666
WORKING CAPITAL AT END OF YEAR	\$ 214,087	\$ 192,670

Auditors' Report

To the Shareholders of
Pegasus Explorations Limited

We have examined the consolidated balance sheet of Pegasus Explorations Limited as at December 31, 1979, and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination of the financial statements of Pegasus Explorations Limited (the parent company) was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the subsidiary company.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
March 21, 1980

Abbott Harrison & Co.
Chartered Accountants



Notes to Consolidated Financial Statements

December 31, 1979

1. ACCOUNTING POLICIES

a) Basis of consolidation

These financial statements consolidate the accounts of Pegasus Explorations Limited and its wholly owned subsidiary, Landusky Mining Inc., incorporated under the laws of the State of Montana on June 29, 1977.

The accounts of the subsidiary have been translated into Canadian funds as follows:

- i) Current assets and liabilities — at the rate of exchange at the balance sheet date.
- ii) Investment in Landusky Partners, mining properties, plant and equipment and deferred exploration and development expenditures — at the average rate of exchange obtained on advances made by the parent to defray these expenditures.

b) Organization and mineral properties

On July 11, 1977 for 200,000 shares and \$3,000 cash the company acquired from Scholz International Mining Inc. the latter's interest in certain patented and unpatented mining claims in the State of Montana subject to a net proceeds royalty interest of 45% held by the original optionors, Wharf Resources Ltd. and L.R.M. Holdings, Inc. At the same time the company conveyed its interest in the claims to Landusky Mining Inc. ("Landusky") its wholly owned subsidiary. After incurring certain expenses on the claims, Landusky conveyed its interest in the claims and the benefit of its expenditures thereon to Landusky Partners ("the Partnership") a limited partnership under the laws of Montana in which Landusky and Mr. E. A. Scholz are the general partners.

The assets contributed to the partnership had a cost of \$595,361 of which \$185,000 (U.S.) is recognized by the partnership. The unrecognized portion is included by the company in "Investment in Landusky Partners".

The partnership agreement provides for allocation of losses and profits as follows:

- i) For 1978 and 1979 losses are allocated 1% to the company and 99% to the limited partners until the latter's capital contribution is exhausted and thereafter 88% to the company and 12% to the limited partners;
- ii) Profits are allocated in the proportion of unrecovered losses. When all losses are recovered the company will be allocated 88% of profits;
- iii) Distributions are to be 1% to the company and 99% to the limited partners until the latter's capital has been repaid and thereafter will be 88% to the company and 12% to the limited partners.

2. PARTNERSHIP CONTRIBUTION

The investment in Landusky Partners was:

	1979	1978
Original lease costs	\$ 165,500	\$ 165,500
Development costs incurred by the company prior to contribution to the Partnership	515,671	515,671
Company's share of the accumulated Partnership operations	402,392	(531)
	<u>\$1,083,563</u>	<u>\$ 680,640</u>

3. ADVANCES TO LANDUSKY PARTNERS

The partnership agreement requires Landusky Mining Inc. to lend funds to the Partnership to bring development to a point sufficient to determine the economic feasibility of the mining project. Additionally, Landusky Mining Inc. may, but need not, lend funds to the Partnership after feasibility of the project has been determined. These partnership loans bear interest at two percent over the prime rate at the date of the advance. Interest rates on these advances at December 31, 1979 ranged from 13¾% to 17¼%. Payment of principal on these loans shall be in the same priority as normal distributions between the general and limited partners.



4. PROPERTY, PLANT AND EQUIPMENT

	1979	1978
Assay, laboratory and office building	\$ 45,850	\$ 45,850
Leaching pads and ponds	154,205	154,205
Plant, office and laboratory equipment	106,971	105,925
	307,026	305,980
Less: accumulated depreciation	158,662	35,404
	148,364	270,576
Land	3,510	—
	<u>\$151,874</u>	<u>\$270,576</u>

The above fixed assets are carried at cost. Depreciation on plant and equipment is provided using the straight-line method over the estimated useful lives.

5. DEFERRED INCOME TAXES

Deferred income taxes arose principally due to timing differences between income recognition from Landusky Partners for financial statement purposes and income tax purposes. Investment tax and job tax credits are accounted for using the flow-through method. Investment tax credits arising in 1978 were not used due to the availability of net operating loss carryforwards. As of December 31, 1979, the company had tax basis net operating loss carryforwards of \$801,547 that are available to offset future taxable income. The Company also has investment tax and job tax credit carryforwards of \$26,777 and \$13,138 that are available to offset future income taxes payable.

6. SHARE CAPITAL

Authorized: 3,560,000 common shares without par value

Issued: 2,075,000 common shares as follows:

	Number	1979	1978
Balance at beginning of year	1,845,000	\$1,738,397	\$1,067,200
Issued during the year for property and services (1978: 190,000)	—	—	228,500
Issued during the year for cash (1978: 415,000)	230,000	1,121,000	442,697
Balance at end of year	<u>2,075,000</u>	<u>\$2,859,397</u>	<u>\$1,738,397</u>

7. SHARE OPTIONS AND WARRANTS

Options

The company has previously granted stock options outstanding at December 31, 1979 to purchase 63,000 shares in the aggregate at \$1.60 per share until November 29, 1980.

Warrants

The company has issued and outstanding 400,000 Series "A" Warrants exercisable at 2 warrants per share plus \$6.10 per share on or before March 24, 1980 and \$6.65 per share until September 19, 1980.

8. SUBSEQUENT EVENTS

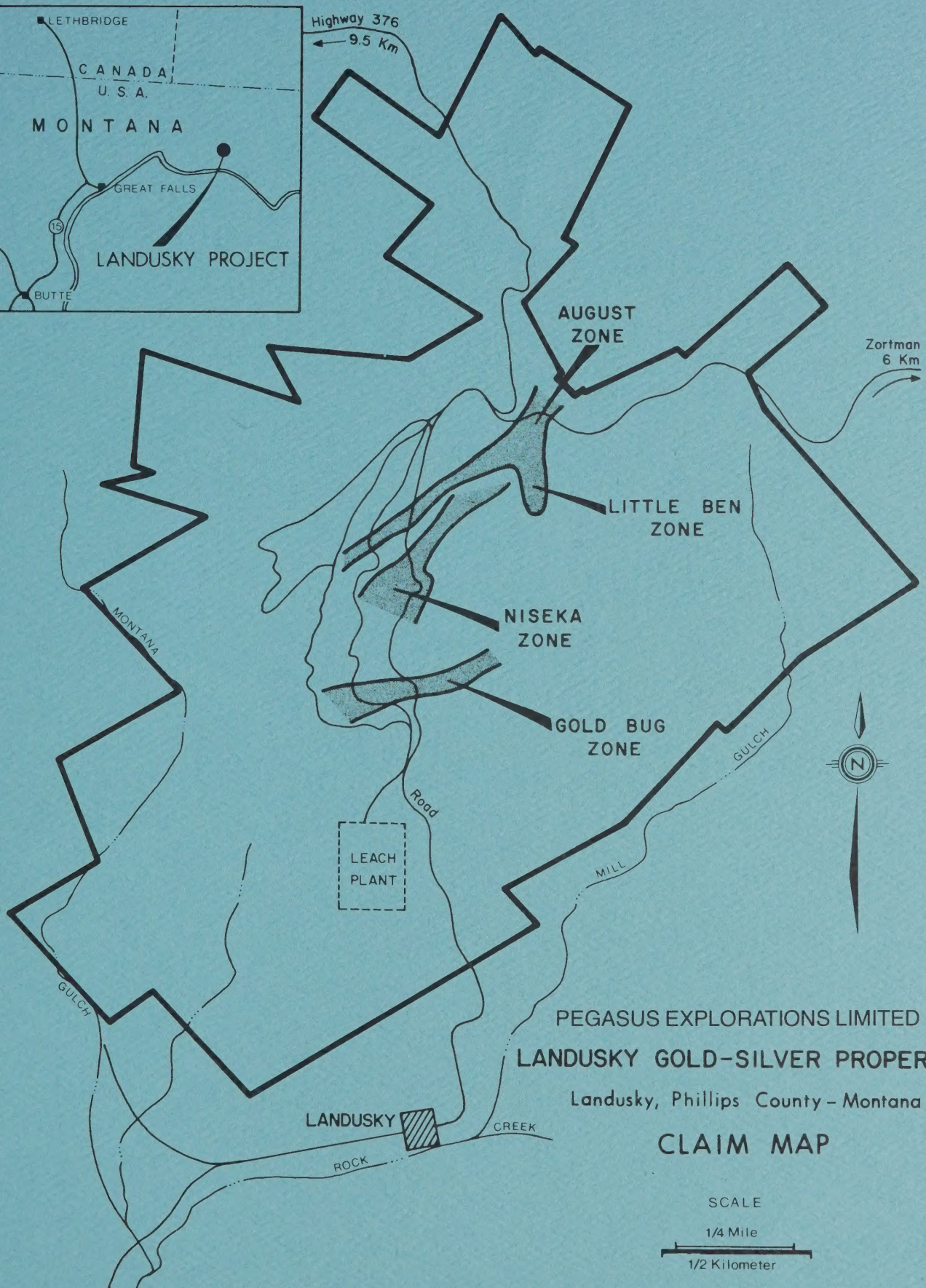
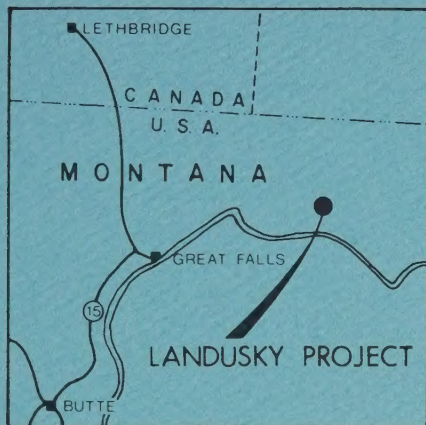
Subsequent to December 31, 1979 the company issued fully paid 18,300 shares to its directors in consideration of providing security in respect of a reclamation bond.

9. STATUTORY INFORMATION

During 1979 \$6,000 was paid to a company controlled by a director for management services.

A director was paid \$7,062 by the subsidiary company for the use of his equipment.

Fees for legal services and for engineering and consulting services have been paid to firms in which directors are partners or owners.



PEGASUS EXPLORATIONS LIMITED
LANDUSKY GOLD-SILVER PROPERTY

Landusky, Phillips County - Montana

CLAIM MAP

SCALE

1/4 Mile

1/2 Kilometer

